

Message Text

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PROPRIETY INFORMATION INVOLVED -- PLEASE PROTECT

E.O. 11652: GDS
TAGS: ENRG, ID
SUBJECT: ENERGY: OUTLOOK FOR INDONESIA'S OIL

REF: (A) JAKARTA A-36 OF MARCH 8, 1977, (B) JAKARTA 3151

1. SUMMARY: INDONESIA'S OIL BONANZA IS COMING TO AN END.
WHILE OIL WILL CONTINUE TO FLOW FOR SOME TIME TO COME, GOI
EXPECTATIONS ABOUT FUTURE FOREIGN EXCHANGE AND BUDGETARY
EARNINGS FROM PETROLEUM MAY NOT BE FULFILLED. THIS MESSAGE
SUMMARIZES OUR A-36 WHICH CONTAINS INFORMAL ANALYSIS ON OUT-
LOOK FOR INDONESIA'S OIL. END SUMMARY.

2. GOI HAS RECENTLY FORMED NEW TECHNICAL COMMITTEE ON ENERGY
RESOURCES, CHAIRED BY MIGAS DIRECTOR WIJARSO, WHICH REPRE-
SENTS SIGNIFICANT STEP TOWARD CREATION AND IMPLEMENTATION
OF COMPREHENSIVE NATIONAL ENERGY POLICY. WE BELIEVE IT WOULD
BE USEFUL--AND SOBERING--AT THIS TIME TO EXAMINE SOME CURRENT
ASSUMPTIONS ABOUT INDONESIA'S OIL SECTOR.

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3. BEFORE SETTING FORTH CERTAIN SCENARIOS, IT IS IMPORTANT
TO SKETCH MOOD OF OIL SECTOR AS IT EXISTED DURING BOOM
YEARS OF LATE '60'S AND '70'S. THIS WAS PERIOD OF DYNAMIC
GROWTH COUPLED WITH OPTIMISTIC FORECASTS, E.G. 2 MIL-
LION B/D OIL PRODUCTION BY 1975 AND 3 MILLION B/D BY
1980. OIL WAS CORNERSTONE OF NATIONAL DEVELOPMENT AND
EMPHASIS WAS ON BRINGING IT OUT OF GROUND AS FAST AS

POSSIBLE. IN AFTERMATH OF IBNU'S FALL, CERTAIN ASSUMPTIONS ABOUT PETROLEUM POLICY BEGAN TO COME UNDER CLOSER SCRUTINY FOR FIRST TIME.

4. FIRST OF THESE AREAS OF RE-EXAMINATION IS OIL RESERVES: CONVENTIONAL ESTIMATES HAVE PEGGED INDONESIAN OIL RESERVES AT ABOUT 15 BILLION BARRELS OF RECOVERABLE OIL. THESE ESTIMATES, WHICH WERE NOT MADE ON BASIS OF HARD DATA, WERE USUALLY JUSTIFIED ON GROUNDS THAT MUCH OF INDONESIA REMAINED UNEXPLORED AND THAT POSSIBLE "POTENTIAL" RESERVES WERE SIZEABLE. RECENT CALTEX AND PRODUCTION-SHARING DISCUSSIONS PROVIDED OBSERVERS FIRST CUMULATIVE GLIMPSE OF COMPANY RESERVES. COMPANY SUBMISSIONS WERE COMPILED IN CONFIDENTIAL PERTAMINA REPORT "LAPORAN SEMESTER I 1976" WHICH SHOWED TOTAL RECOVERABLE RESERVES AS OF JANUARY 1, 1976 TO BE 4.2 BILLION BARRELS. INTRIGUED BY THIS WIDE DISPARITY, EMBASSY ATTEMPTED ITS OWN INFORMAL ANALYSIS. OUR ESTIMATE, TAKEN FROM PRIVATE COMPANY DATA, IS HIGHER--BUT NOT BY MUCH. WE WOULD CALCULATE RESERVES AS OF JANUARY 1, 1977 AT 5.7 BILLION BARRELS RECOVERABLE OIL. THIS BREAKS DOWN AS 3.35 BILLION BARRELS CONTRACT OF WORK (3.3 BILLION CALTEX; 50 MILLION STANVAC); 1.6 BILLION PRODUCTION-SHARING COMPANIES (14 CONTRACTORS); PERTAMINA, 800 MILLION BARRELS. THESE FIGURES DO NOT RULE OUT NEW DISCOVERIES OR ENHANCED RECOVERY TECHNIQUES. HOWEVER, POSSIBILITY OF ANOTHER 1 BILLION BARREL FIELD IS REMOTE. MOST AREAS GEOLOGICALLY ATTRACTIVE HAVE ALREADY BEEN SUBJECTED TO DECADES OF EXPLORATORY WORK.

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5. PRODUCTION: DEPRESSED DRILLING AND EXPLORATION ACTIVITIES, LACK OF INVESTOR CONFIDENCE, LIMITED RESERVES, HIGH DEPLETION RATIOS AND MARKETING UNCERTAINTIES, COULD RESULT IN LEVEL OF PRODUCTION BOTTOMING AT 200,000 B/D BY 1985. IN ITS AFOREMENTIONED REPORT, PERTAMINA ESTIMATES PRODUCTION COULD DROP BELOW 1 MILLION B/D BY 1980 IF EXPLORATION EFFORTS CONTINUE EXPERIENCE SIGNIFICANT DELAYS. REPORT BREAKS THIS DOWN AS FOLLOWS: CONTRACT OF WORK (320,000 B/D); PSC (300,000 B/D); PERTAMINA (60,000 B/D). PRIVATE ANALYSES BY CERTAIN COMPANIES OPERATING HERE--UNION, BP, GULF--APPEAR TO CONFIRM GENERAL OUTLOOK. UNION, FOR EXAMPLE, PROJECTS TOTAL INDONESIAN PRODUCTIONS AT ABOUT 250,000 BY 1985. PRIVATE SOCIAL FORECAST INDICATES CALTEX COULD RECORD PRODUCTION OF 600,000 B/D BY 1980 IF NO FURTHER DEVELOPMENT OR SECONDARY RECOVERY IS DONE. IMPLICIT IN THIS DISCUSSION IS ABSENCE OF ANY CONSERVATION POLICY. STRONG MARKET DEMAND FOR PETROLEUM PRODUCTS COULD REVERSE THIS TREND, BUT

WITH CHINESE OIL POTENTIALLY COMPETING WITH INDONESIAN
CRUDE IN JAPAN AND NORTH SLOPE OIL ABOUT TO LAND IN US,
INDONESIA'S SHARE OF THESE KEY MARKETS IS BY NO MEANS
GUARANTEED.

6. DOMESTIC CONSUMPTION: THIS IS MOST SERIOUS PROBLEM
NEW TECHNICAL COMMITTEE MUST DEAL WITH. EVEN IF PRO-
DUCTION FORECASTS ARE OFF BY WIDE MARGIN, BURGEONING
DOMESTIC DEMAND FOR ENERGY COULD LIMIT AMOUNT OF OIL
AVAILABLE FOR EXPORT IN ABSENCE DEVELOPMENT NON-OIL FORMS
OF ENERGY. RECENT MIGAS STUDY ENTITLED "FORECAST OF
ENERGY CONSUMPTION IN INDONESIA, 1975-2000" PROJECTS
OVERALL ANNUAL ENERGY CONSUMPTION RATE OF NEARLY 14 PER-
CENT THROUGH 1984. THIS COULD AMOUNT TO CONSUMPTION OF
OVER 600,000 B/D (AT TIME WHEN PRODUCTION COULD BE IN
200,000-250,000 B/D RANGE). AUTHORS FORECAST EQUALLY
STAGGERING COAL CONSUMPTION: FROM 190,000 MT IN 1975
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TO 3.0 MILLION MT BY 1985. INDUSTRIAL USAGE OF ENERGY
SLATED TO JUMP 300 PERCENT BETWEEN 1975 AND 1985. CON-
SUMER DEMAND EXPECTED TO RISE SIGNIFICANTLY ALSO PAR-
TICULARLY SINCE INDONESIA'S AUTO ASSEMBLING INDUSTRY
SHOULD REACH PEAK PRODUCTION AT THIS TIME.

7 CONSLUSION: CHIEF OBSERVATIONS FROM ABOVE DISCUSSION
CAN BE BRIEFLY SUMMARISED AS FOLLOWS: A) MOST FORECASTS
ABOUT OIL'S ROLE IN BALANCE OF PAYMENTS OR BUDGETARY
ACCOUNTS MAY BE INACCUARTE. ONE PRELIMINARY BANK OF
INDONESIA STUDY ESTIMATES NET OIL EARNINGS OF \$9.5 BIL-
LION IN 1985/86. WE FEEL MORE REALISTIC ESTIMATE WOULD
BE IN NEIGHBORHOOD OF \$5.1 BILLION; B) TO REVERSE THIS
APPARENT TREAND, GOI MUST ADOPT CRASH PROGRAM TO DEVELOP
NEW ENERGY SOURCES. COAL IS MOST LOGICAL CANDIDATE IN
TERMS OF RESERVES AND COST ANALYSIS PER BTU CONTENT;
C) DEVELOPMENT OF THESE NEW SOURCES OF ENERGY WILL RE-
QUIRE SIGNIFICANT AMOUNTS OF INVESTMENT CAPITAL AS WELL
AS LARGE INFUSTIONS OF TECHNICAL EXPERTISE. THIS SHOULD
REPRESENT IMPORTANT BUSINESS AND INVESTMENT OPPORTUNITIES
FOR AMERICAN FIRMS.

8. ABOVE REPORT AND OUR AIRGRAM A-36 BASED ON CONFIDENTIAL COMPANY
AND PERTAMINA REPORTS. THIS PROPRIETARY INFORMATION SHOULD
BE HELD CLOSELY.

GARDNER

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